

**HOUSING SECTOR REFORM PROJECT
RUSSIAN FEDERATION/CITY OF MOSCOW**

MONTHLY REPORT

SEPTEMBER 1996

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Russian Federation Program

Notable Development

1. On August 26, 1996 Prime Minister Chernomyrdin signed Government Resolution No.1010 activating the Agency for Mortgage Lending, by allocating the Government's contribution to capital (\$90 million) and naming the Board of Directors. The Agency will serve as a liquidity facility for banks originating qualifying mortgage loans and through its policies governing the types of loans it purchases it will establish industry standards in much the same way as Fannie Mae and Freddie Mac have established these standards in the U.S. mortgage market. The HSRP team has worked very closely with Ministroi and the Ministry of Finance over the past two years to create this new institution.
2. A Presidential Decree issued in August liquidated the Commission on Real Estate that was created by a late-February Presidential Decree which was primarily devoted to mortgage. The functions assigned to the Commission have been given to GKI.
3. Stephen Butler (Legal Advisor) submitted the paper, "Infrastructure Exactions on Development of Real Estate: Implications of International Experience for Russian Markets," which both serves as a guide to the concept and use of exactions for Russian officials and sets out guidelines for future legislation on the topic. Copies have been provided to USAID and the translation process has begun. A wide distribution of the paper is planned.
4. Early in September, Alexander Puzanov (IUE) and Igor Potaluyev (IUE) prepared comments to the draft Law "On Housing and Communal Economy" and submitted it to Tchernyshov, Deputy Head of the Department of Communal Economy. Tchernyshov was also given Puzanov's comments to Bychkovsky's "Regulation on Housing Payments and Subsidies."
5. Because the State Duma rejected the draft Law on Registration of Real Estate, a reconciliation commission was created to solve the differences between the Federal Assembly and the State Duma. Potaluyev prepared a draft protocol regarding the decision of the reconciliation commission on solving the conflict between the State Duma and the Federal Assembly.

Housing Finance

1. Natalya Rogozhina (IUE) drafted a detailed - hour by hour - schedule of three training courses included in the "Certified Mortgage Lender" (CML) Program. Additionally, Andrei Suchkov (IUE) met with Victor Koreshkov who is responsible for education in the Association of Russian Banks (ARB). The final approval of the CML Program was

- signed by the President of the Association Sergey Egorov. ARB agreed to join the Program as an official co-organizer.
2. Suchkov and Potaluyev met with Boris Smirnov, Director of the National Foundation for Housing Reform, and Aleksei Aleksandrov, Attorney of the Foundation. By the Declaration of the Government that created the Agency for Mortgage Lending the Foundation is assigned to represent the interests of the Government and to act as a founder of the Agency on behalf of the Government. We gave a brief overview of the concept of the Agency, and explained the mechanics of the Agency operations. The problems of registration and development of necessary legal documents were discussed, including the organizational and functional structure, and distribution of responsibilities. We reached an agreement that the HSRP team would develop a Charter Draft of the Agency, and would present it for consideration in a week. Later in the week, Potaluev completed work on this Charter Draft.
 3. Suchkov met with Svetlana Tolstikova, Manager of the State Organizations Communication Department of Menatep Bank in Moscow. We explained the concept of the Agency for Mortgage Lending, and advised her on our activities in drafting the Agency Charter. Tolstikova is going to get a lawyer from Menatep bank involved in the Agency registration procedure. The problem concerning the Agency's Authorized Capital was discussed. According to Tolstikova if any problems with getting money from the budget occur the bank would be ready to give a loan guaranteed by the Ministry of Finance to pay for the Agency's Authorized Capital.
 4. Rogozhina met with Aleksey Tsvetkov, Deputy Head of the Lending and Guarantees Department of Nefthyanoi Bank in Moscow. The bank is currently making loans for housing acquisition to a rather limited number of individuals. The bank is using a lending security scheme according to which legal entities—prominent customers of the bank—act as the loans guarantors. Such a policy has resulted from the ongoing reorganization of the bank's daughter realty firm. Tsvetkov confirmed once more the bank's intention to expand the mortgage lending sphere, and to enlarge the Department staff simultaneously.
 5. At the request of the Ministry of Construction (Minstroj), Klepikova is working on developing instructions on: the approximate procedure for carrying out a competition on the selection of the authorized banks serving housing up-front subsidies; the handing out of certifications on the granting of subsidies; and opening blocked targeted accounts.
 6. Ray Struyk (Project Director) met with Jamie Cook who has been working for the World Bank to redraft the Bank's Russia Division's proposal for internal bank funding to support technical assistance to the Agency for Mortgage Lending. The topic was the plan for assistance drafted by Fannie Mae.
 7. During the last week of September there was considerable discussion within the Government concerning who will be named the President of the Agency for Mortgage

Lending. No decision has been made but one may be forthcoming in the early October.

Historic Preservation in St. Petersburg

1. In Moscow, Lyuda Kolokolnikova (IUE) contacted Irina Markina, the Head of the Historic Preservation Department of the RF Ministry of Culture in order to clarify the current status of negotiations between the Ministry of Culture and the St. Petersburg Historic Preservation Inspection (GIOP). The current agreement on separation of powers in historic preservation issues granted more authority to the local level.
2. Kolokolnikova met with Romanov, President of "AMR" company to obtain construction costs on reconstruction and renovation of mixed use buildings located in the historic center of St. Petersburg. Actual numbers of the construction budget will serve as a basis of information for the pro-forma model of the project. Kolokolnikova met with Tovbin, of "LENNIIPROECT," to get information on a new construction budget for residential buildings in a new residential district of St. Petersburg. On the basis of interviews and project information Kolokolnikova completed the table on typical historic buildings and typical residential buildings in new residential areas of St. Petersburg. Land lease rates for different areas of the city were obtained from Pakhomova, a specialist at ZAO "NIPIGRAD."
3. As a result of the recent work in St. Petersburg Kolokolnikova prepared the following information for the feasibility project:
 - construction costs spreadsheets based on "LENNIIPROECT" and "AMR" company files for the reconstruction of mixed use buildings and new construction of residential buildings located in the historic center and new residential district of the city; on building lease rates;
 - approval fees and technical conditions;
 - building insurance fees; and
 - long-term maintenance and property management costs.
4. Kolokolnikova met with Berdnikova, expert of the Historic Preservation Department of the Ministry of Culture, to identify the existing legal status of the Agreement on Separation of Power in the Field of Historic Heritage Preservation between the Ministry of Culture and Administration of St. Petersburg. She obtained information on the role of the expert commission on privatizing historically significant buildings in St. Petersburg, and the procedure for issuing building certificates. She also learned that the Federal Historic Preservation Program for Historic Center Rehabilitation will be included in the legal part of the project "The Economic Feasibility of Historic Preservation in St. Petersburg."

Zoning Pilot

1. Struyk and Kolokolnikova met with Nikta Ananov, Chairman of the City Construction and Land use Committee of the St. Petersburg Legislative Assembly, who is also a strong promoter of improved zoning legislation for the city. Ananov praised Bob Odland's (UI Consultant) work on zoning legislation and requested continuing help after Bob's departure. He believes real results will now occur, principally because of the strong backing for reform from Deputy Mayor Loktionov. Struyk explained the structure of the work in the new task order and acknowledged that St. Petersburg was in a somewhat different position from other cities because of the large volume of work already done on the topic and the sophistication of many officials. We agreed that the team working on the new task order would visit St. Petersburg for discussions as a basis for preparing the parts of the work plan that will deal with St. Petersburg.
2. Odland completed the first draft of the report on zoning systems in five countries and has begun to make revisions, including those suggested by Struyk.
3. Interest in zoning continues to build in St. Petersburg. It appears that the city administration or the legislative assembly, or both, will adopt the zoning report on Block 130 as a law or mayoral order. Although the report covers only a very small portion of the city, its adoption would signal an acceptance of the principles of zoning.
4. Odland prepared a paper that could serve as the basis for the zoning regulations, the more detailed provisions enacted subsequent to adoption of a zoning enabling law. This paper contained a revised list of zones, a description of categories of uses suitable for the city, and a matrix showing which categories of uses would be allowed in each zone. In addition to providing a starting point for drafting the zoning regulations, it will help people better understand zoning.
5. Odland completed his analysis of the draft Law on Zoning for a meeting is scheduled for the end of September. The draft law is also being reviewed by attorneys for the Legislative Assembly. The plan is to substitute this version in October for the version that was discussed several months ago by the Urban Development Commission of the Legislative Assembly.
6. Kolokolnikova continued work on the paper "Zoning Regulations: An Introduction for City Officials." Kolokolnikova met with Natalia Malysheva, the St. Petersburg Governor's Advisor on City Development Projects, and Ekaterina Beliakova, Director for Project Development of the Department of Construction (St. Petersburg). Malysheva would like to have a presentation on Kolokolnikova's paper. Beliakova, who is working with private developers and investors, expressed the importance of introductory information for builders, developers and private investors.

Regional Housing Programs

1. Volkhov

- (a) In early September Olya Kim (IUE) learned from the chief of the Department of Housing and Communal Services of the Volkhov city administration that the reorganization of housing management has started. The DHCS was appointed to perform functions of Customer Service by the Mayor's decree. All tenant fees now will be collected by a special municipal entity, which was organized in August and started working in September.

2. St. Petersburg:

- (a) Oleg Gorodov (CCN Consultant) held several meetings with L. Fidgant of the City Property Committee regarding the implementation of the "Concept of Housing Sphere Reform" in St. Petersburg. He also met with G. Gref, Director of the Real Estate Department of the City Property Committee, to discuss issues pertaining to the registration of land plots within developed communities.
- (b) On September 6, a competition on maintenance was held by the Primorsky Housing Economy Board. HSRP consultants Marina Shapiro (IUE) and Natalya Vasilieva (CCN Consultant) attended this first St. Petersburg competition. There were three private joint-stock maintenance firms and one state maintenance enterprise bidding in the competition. It is interesting that the state enterprise offered the lowest cost for housing stock maintenance. A representative of the state enterprise remarked that competition with the private firms participating in the bidding has forced his enterprise to mobilize their resources and become more competitive. On the second round of the competition, however, the private firm "Rosstro" was selected as the winner. Now the customer and the contractor are negotiating the terms of the agreement to be signed in two weeks.
- (c) Gorodov prepared documents which are needed to register two associations of home owners (the founders: the Union of Internationalists and TsNII named after Krylov). The documents for registering the associations were given to the Registration Chamber of St. Petersburg.
- (d) A decision has been made at the Committee of Land Resources, headed by I. A. Yuzhanov, to create a City Condominium Registration Committee, that will be responsible for dealing with the procedure of creating a condominium real estate complex. This decision will be submitted to the St. Petersburg Deputy Governor for review. Gorodov also participated in a meeting at the City Economy Management Committee, headed by A. I. Tregubov, where they approved a first draft of the RF Law on "Home Owner Associations."

3. Vladivostok:

- (a) In early September, Sergei Sivaev (IUE) prepared a document called "The Analyses for the Prospectives of Housing Reform and Creation of Customer Service in Vladivostok," which he will provided to the city administration during his visit to Vladivostok.
- (b) A week after preparing the document, Sivaev traveled to Vladivostok to discuss IUE's Regional Center program in the Far East for 1996-1997. Sivaev met with the following people: Deputy Head of the Vladivostok City Administration, V. G. Sugak; Head of the Communal and Housing Economy Committee of the City Administration, S. E. Ahapkin; Deputy Head of the Communal and Housing Economy Committee of the City Administration, G. G. Adjaev; and Director and Deputy Director of the Communal and Housing Economy and Fuel Department of the Primorsky Krai Administration.

The officials of the city and of the krai were very interested in organizing a series of seminars on housing reform and promised to afford their full assistance. City officials asked to combine the customer service and home owners associations seminars in a single seminar due to: (1) the audience of both items is the same - officials of the city administration; and (2) both topics are of vital interest to the city and krai. The authorities are interested in organizing the seminar without delay.

The parties came to conclusion that the first seminar will be held on October 22-25 and discussed the issues of its organization. Sivaev, with some officials of the city administration, visited possible seminar sites, and chose the most convenient place.

- (c) A complex political situation characterizes Primorsky Krai at the moment. The election of the Mayor of Vladivostok has been scheduled for October 6. In the case of the election of a new Mayor instead of the present Mr. Tolstoshein, the dismissal of many officials including those with whom Sivaev had meetings, is probable. The officials discussed this topic rather frankly. The parties came to an agreement that in such a case the Regional Center for the Far East could be established in another city. The city and krai administrations expressed the view that if obstacles for the organization of seminars in Vladivostok arise, they are interested in the establishment of a Regional Center Khabarovsk, where all necessary conditions exist.

4. Khabrovsk:

- (a) Sivaev visited Khabarovsk where he met with: Deputy Head of Khabarovsky Krai Administration, Alexandr B. Levintal; First Deputy Mayor of Khabarovsk, Ivan A. Kreis; and Head of the Communal and Housing Economy Department of Khabarovsk City Administration, Nikolai V. Vasilyev. During his trip the

problems of the krai and city communal economy were discussed. The officials expressed their interest in cooperating with IUE. The direction of such cooperation could be: (1) Housing Allowances service; (2) Customer Service; and (3) creating associations of home owners on the basis of new buildings. Krai and city administrations accepted the invitation to take part in the regional IUE seminars.

- (b) Unfortunately, the agreement with OAO "ROSSTRO," which won the first maintenance competition in St. Petersburg has been postponed. In its application for participation in the contest OAO "ROSSTRO" indicated that the price of maintenance per one square meter of housing was 1,935.3 rubles. But according to calculations of the UZhHB this price should be only 803.6 rubles. OAO "ROSSTRO" won the competition according to other criteria and not according to the criteria of price for maintenance. The Promorski UZhHB considers it possible to conclude a contract agreement with OAO "ROSSTRO" under the price 803.6 rubles per one square meter, and to pay for all maintenance works which are not included in the current agreement by concluding additional agreements. Such a practice currently exists between the UZhHB and the GREP. But OAO "ROSSTRO" insists that it is necessary to clarify the price under the agreement. In most likelihood, the final decision will be made on September 23.
5. HSRP also conducted work in the following cities: Volkhov, Petrozavodsk, Vologda, Cherepovets, Irkutsk, and Rostov-on-Don.

City of Moscow Program

1. Katya Petrova (IUE) received a call from A. Khakhulin, site manager from the "Santechnika" private firm board, located in the "Mitino" raion (Northwest Administrative District). Since winning the competition in 1994, "Santechnika" has been providing housing maintenance to "Mitino-6" and "Mitino-7" microraions, and now the DEZ has offered them the opportunity to keep maintenance of a newly-constructed microraion, "Mitino-8".
2. Shapiro met with V. Zotov, Prefect of the South-East Administrative District. Zotov promised to do his best to organize a competition for housing management in the "Vikhino" raion immediately after he is back from his vacation. If this happens, the housing management competition should take place in the end of October or in early November.
3. Shapiro met with P. Biryukov, newly-appointed First Deputy Prefect of the Central Administrative District (former Subprefect of "Vikhino" raion) to discuss possible ways to introduce privatization of housing management and maintenance in the Central District (all our previous attempts to introduce competitive maintenance in the Central District have been unsuccessful). As a result of this meeting, Biryukov recommended that the

Chief of the "Presnenskoye" DEZ contact HSRP consultants to discuss the issue.

Dissemination/Training/Seminars

1. Brochures/Manuals: Koutakova completed editing the Condominium Management Manual and is working with Sergey Lykov to prepare it for copying. Rita Pinegina (IUE) and Dima Khomchenko (IUE) finished preparing the Customer Service brochure for publication. Khomchenko is working on the brochures "The Model Condominium Charter" and "Comments to New Condominium Law." A. Schogolev (CCN Consultant) is finishing the work on his brochure on the accounting management in condominium association. Petrova is working on the informative brochure "Questions and Answers," concerning issues of maintenance competition procedures and privatization of housing maintenance.
2. In response to a request from P. Saprykin, Chairman of the Committee on Municipal Housing, Shapiro provided the committee with a full set of the videos, radio commercials and other advertizing materials for promoting unit privatization and condominium formation. The request was in response to Mayor Luzhkov's order for the Moscow Press Center to arrange for these materials to be aired.
3. Sergei Lykov agreed with the chief editor of the Volgograd Obalst newspaper, "Zadochi," to publish articles prepared by HSRP and IUE related to housing reform. We will provide him with the necessary materials and information.
4. Lena Klepikova (IUE) met with Yuri Evdokimov, General Director of the Investments and Real Estate Agency of the Weekly Magazine "Economy and Life" to discuss an article on granting up-front subsidies for dwelling acquisition.
5. Don McCarthy (UI Consultant) hosted an advanced residential construction lending seminar given by the Institute for Urban Economics in Sochi. Those making presentations from IUE were Suchkov, Klepikova, Andrei Tkachenko and Valenine Porzhenko. Presentations were also given by: Sergei Khotochkin of Zhivago Bank (Ryazan), Sergei Kurilov of East Siberian Bank (Irkutsk), Yelena Debolskaya of Sokolbank (Cherepovets), Valeri Mikheev of United Industrial Bank (Moscow), and Vladimir Beznedelny of Bank Saint Petersburg.
6. Bob Wiklund (UI/Moscow) and Andrei Khakhalin (CCN Consultant) attended a conference sponsored by the Moscow City Licensing Chamber to discuss the draft Federal Law on Licensing. Approximately 150 mayors and heads of licensing chambers from across Russia attended the conference. At the request of the Moscow Licensing Chamber, Steve Butler prepared comments on the draft law. Butler's comments were distributed for discussion at the conference. Copies were also given directly to Zavodnov, the Chairman of the Moscow Licensing Chamber, and to Aprelev, President of the Russian Guild of Realtors. Both considered Butler's

comments and the assistance from HSRP to be very valuable. HSRP will probably continue to offer assistance or cooperation to the Moscow Licensing Chamber regarding relevant issues.

7. The Regional Team participated in a conference in Suzdal. Struyk, Kosareva, Sivaev, Khomchenko, Shapiro, Aliosha Novikov (IUE) and Vladislav Prokofiev (CCN Consultant) took part in this conference. Representatives of 6 oblast administrations, and representatives of 15 city administrations, as well as the heads of agencies of maintenance of housing stocks were present. The total number of participants was approximately 60 people.
8. Sergei Lykov (CCN Consultant) met Rita Portnova, Director of Risa-M printing house to discuss development of the Trainer's Manual. Due to the heavy cost of this book (about 300-400 thousand ruble per book) Lykov cut the order by 20 pieces to 40 books. This will give us more flexibility when issuing such an expensive book. Due to the problems with copying the slides (very expensive and very few producers), the manual will be finished only next week.
9. Sivaev gave interviews to a newspaper correspondent from "Segodnya" on condominiums and organizing maintenance competitions. Sivaev also gave an interview on Vladimir TV on housing reforms.

Program Management

1. Sergei Lykov has replaced Lena Grudinina as responsible for public relations. Lena left on maternity leave but expects to take at least two years off work to be with the baby.
2. The Urban Institute and USAID signed three task orders under the HSRP II contract this week. The subjects of the task orders are: "Real Estate Reform Deepening," roll out of the land use regulation project, and roll out of the commercial real estate mortgage project. Struyk held organizational meetings with Giorgi Zadonski, project leader for the "deepening" project, and Larry Paterson, team leader for the land use regulation project. Office space has been organized for all three projects.

Institutionalization

1. The World Bank is contracting with the IUE for Alexander Puzanov to participate in two missions involving public expenditures in Kazakhstan. The contract for his services is entirely between the Bank and the IUE. It is the first World Bank contract for services outside of Russia
2. As part of the "commercialization" of assistance on mortgage finance, IUE has signed its first contract with a commercial bank to provide the bank with legal documents needed for mortgage lending.

Actual Cost and Level of Effort Summary

Cost

September 1996	\$154,731
Project to Date	\$12,031,202

Level of Effort (person-months)

September 1996	4.69
Project to Date	448.61